

STATE OF RHODE ISLAND  
DEPARTMENT OF HEALTH

**OFFICE OF HIV/AIDS**

**OPERATIONAL AUDIT**

June 2006



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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August 24, 2006

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Dear Dr. Gifford:

Pursuant to your request, the Bureau of Audits (the Bureau) completed the operational audit of the Office of HIV/AIDS. The objectives of the audit were to evaluate the adequacy and effectiveness of management controls, the economy and efficiency of operations, and compliance with significant laws and regulations applicable to the department.

The Bureau discussed the enclosed findings and recommendations with you and your management team in a closing meeting held on June 1, 2006. In accordance with standard procedure, the Bureau requested that you provide a response to the findings and recommendations in this report. Your response is included in the report.

In accordance with RIGL § 35-7-4 entitled, "*Periodic audits by department of administration*," the Bureau will review the Office of HIV/AIDS corrective action plan within six months from the date of issue of this report.

Very truly yours,

  
H. Chris Der Vartanian, CPA  
Chief, Bureau of Audits

HCD:pp

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## **EXECUTIVE SUMMARY**

The Bureau of Audits (Bureau) conducted an operational audit of the Department of Health, Office of HIV/AIDS, for the fiscal year ended June 30, 2005 and the period from July 1, 2005 to February 28, 2006 as outlined in the “Objectives, Scope, and Methodology” section of this report. The audit was conducted to evaluate the adequacy and effectiveness of managerial controls, the economy and efficiency of operations, and compliance with significant laws and regulations applicable to the department.

As noted in the Background section of this report, the Office of HIV/AIDS administers a program that provides a variety of services to treat the Human Immunodeficiency Virus (HIV), the virus that causes Acquired Immune Deficiency Syndrome (AIDS). To date, the Office of HIV/AIDS has administered this program solely through federal funding provided by the Health Resources and Services Administration (HRSA). The funding is used to provide qualified participants with medications and services needed to combat HIV and prevent the onset of AIDS.

The Bureau conducted this audit at the request of the Department of Health to examine recently discovered financial shortfalls in the program. The operating results for the HIV Program for fiscal years ended June 30, 2004 and 2005 revealed cumulative operating deficits of \$0.6 million and \$2.0 million, respectively. The Department anticipates that the cumulative deficit at June 30, 2006 will be approximately \$3.9 million based on revenue and expenditure projections for the fiscal year. The Department of Health has requested a supplemental appropriation of state general revenues for fiscal year 2006 to fund the current outstanding deficit.

The cumulative deficit was not detected in a timely manner resulting in the Department of Health’s failure to take corrective action. There are several findings outlined in our report that contributed to the Department of Health’s inability to detect and project the program’s structural deficit. These findings include: program personnel and fiscal personnel do not communicate information in a manner that allows for the efficient and effective operation of the program; the CFO (Administrator Management Services) does not have the final review and approval of financial transactions that can significantly affect fiscal operations of the HIV program; items can be approved without the CFO’s knowledge or oversight; management did not follow the fiscal year-end closing procedures as outlined by the Office of Accounts and Controls for the fiscal year 2005 closing; budget projections submitted on Form BR-7, as required by instructions from the Budget Office, did not accurately reflect program operations; and the Federal Grants Information Schedule was not prepared and submitted as required by the Office of Accounts and Control. Agencies are required to file schedules by August 15<sup>th</sup> as part of the fiscal year closing procedures.

Other findings noted in our report that did not directly contribute to the Department's inability to detect and project the program's structural deficit were as follows: there are several deficiencies in the application and certification process; there are weak internal controls over the processing of payment transactions; The Program Services (Program Services) section does not reconcile rebates received with the amounts recorded and deposited; some payments made to the service contractor providers were for categories of items not supported by valid invoices; sensitive information is not protected via the use of passwords or encryption to prevent unauthorized access to such information; data is not adequately backed-up to protect it from loss; there are not adequate controls in place to protect computers from theft or misuse; and the program is not in compliance with State record retention laws.

The HIV Program administered by the Office of HIV/AIDS is currently suffering a cumulative structural deficit estimated at \$3.9 million at June 30, 2006, as noted earlier in this section. As evidenced by the figures below, the total number of individuals living with HIV continues to climb and the cost of drugs and services are escalating. However, the funding for this program, exclusively provided by the federal government, has not increased in proportion to rising costs.

We reviewed data provided by the Office of HIV/AIDS that was submitted to HRSA. This data indicated that the number of qualified participants in the State of Rhode Island increased from 433 individuals to an estimated 614 individuals for the period from 2002 to 2006; an increase of 42 percent. For the same period, program drug expenditures increased from \$1.9 million to an estimated \$4.4 million; a 232 percent increase. In 2006, rebates from pharmaceutical companies on the \$4.4 million of drug purchases are estimated to be \$1.8 million at June 30, 2006; these rebates were recycled into the program. Other annual costs of the program in 2006 are contract services estimated at \$2.2 million and administrative costs estimated at \$.3 million. Finally, from 2002 to 2006, federal funding for the program has increased by only 7 percent, from \$3.0 million to \$3.2 million. For fiscal year 2006, total program costs will total \$6.9 million and total available funds, including recycled rebates, will total \$5.0 million; thereby resulting in a projected deficit of \$1.9 million.

It is evident that with increasing participants in the program, escalating drug and health care service costs, and no foreseeable increase in federal grant funding, the program will not be able to offer the current level of services in the future. The program faces issues similar to those of other states; it must secure revenues, implement cost containment measures, or employ a combination thereof.

## **INTRODUCTION**

### **Objectives, Scope and Methodology**

The Bureau conducted an operational audit of the Department of Health, Office of HIV/AIDS for the fiscal year ended June 30, 2005 and the period July 1, 2005 to February 28, 2006. The objectives were to evaluate the adequacy and effectiveness of managerial controls, the economy and efficiency of operations, and compliance with significant laws and regulations applicable to the department. This audit was conducted at the request of the Department of Health as part of their efforts to examine a financial shortfall in the program.

The Bureau performed the audit in accordance with *the Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors. The audit scope included a review of program practices and procedures, an evaluation of program efficiency, and a review of compliance with state and federal laws. To achieve these objectives, the auditors reviewed relevant policies and procedures, state laws and regulations, interviewed staff, and performed tests of the records and implemented such auditing procedures considered necessary under the circumstances.

The Bureau discussed its findings and recommendations with management and considered their comments in the preparation of this report. Rhode Island General Law § 35-7-4 (c) entitled, “Periodic audits by the department of administration” states in part “Within sixty (60) days following the date of the audit of each state department or agency, the director of the department or agency audited shall respond in writing to all recommendations made by the bureau of audits.” Accordingly, management submitted its response to the audit findings and recommendations on August 7, 2006, and this response is included in this report.

### **Background**

The Office of HIV/AIDS administers a program that provides a variety of services to treat the HIV, the virus that causes AIDS. The funding for this program is derived primarily from the federal government as described below.

The U. S. Department of Health and Human Services provides funds through Title II of the Ryan White CARE Act to all 50 states and several U. S. territories using a formula based on the number of reported AIDS cases. Title II funds may be used to provide a variety of services including medications, support services, insurance coverage, outreach services, home-based health care and ambulatory health care. Congress earmarks a portion of the funds for the AIDS Drug Assistance Program (ADAP) to provide medication for the treatment of HIV.

The Rhode Island Department of Health, Office of HIV/AIDS administers the Title II federal grants and the state ADAP program. Financial and medical applications must be submitted and to and approved by the program. To be eligible for ADAP, individuals must be Rhode Island residents with proof of HIV and income of no more than 400% of the poverty level. ADAP is required to be the payer of last resort so if the applicant has insurance, the program covers the co-pays; and, if the applicant is eligible for Medicaid, that program will be billed for the medications.

## **FINDINGS AND RECOMMENDATIONS, AND MANAGEMENT'S RESPONSE**

The audit revealed control weaknesses and opportunities for improvement in several of the Office of HIV/AIDS operational areas. The findings and recommendations are classified into four areas for the purpose of this report: program management and financial controls, application and eligibility, billing and payment, and data protection and retention.

### **PROGRAM MANAGEMENT AND FINANCIAL CONTROLS**

#### **Background:**

Operating results from fiscal years ended June 30, 2004 and 2005 show that the program ended each fiscal year with an operating deficit. For 2004, the program ended the year with an operating deficit of \$0.6 million. In 2005, the program ended the year with a cumulative operating deficit of \$1.9 million. The program is expected to incur a deficit of \$1.9 million in fiscal year 2006 resulting in a cumulative operating deficit of \$3.9 million at June 30, 2006. Rising drug costs and level grant funding are key factors that have contributed to the current program deficit.

Due to the fact that this deficit was not detected in a timely manner, the Department of Health was unable to take corrective action. The findings below outline factors that contributed to the Department of Health's inability to detect and project the program's structural deficit.

#### **Program and Financial Management**

##### **Finding:**

Program personnel and fiscal personnel do not communicate information in a manner that allows for the efficient and effective operation of the program. Examples of this lack of coordination include:

- Budget meetings are not scheduled between the fiscal staff and program staff.
- Fiscal staff was not provided with key information regarding the generation of rebates.
- Program staff did not communicate in a timely manner with fiscal management that there was a backlog in the bill payment process.



- Program staff is not trained in the use of the State accounting system and therefore does not validate the accuracy and completeness of transactions processed against the program accounts.

In addition, the CFO (Administrator Management Services) does not have the final review and approval of financial transactions. This can significantly affect fiscal operations of the HIV program. Items can be approved without his knowledge or oversight.

Recommendations:

1. Improve coordination between program and financial management to ensure that information is adequately communicated in a timely manner.
2. Ensure that the program staff is appropriately trained in the state accounting system.
3. Create and implement an appropriate hierarchal approval structure for the review of financial transactions.

Management's Response:

RI Department of Health (DOH) accepts the recommendations. Proposed corrective actions are:

- Immediately initiate monthly expense spreadsheet to be sent to the Program Manager and Division Director by the fiscal unit in Central Management and/or clear instructions how to access the required information from the state fiscal system. After Program review, any discrepancies/concerns are addressed with Central Management the corrected spreadsheet is shared with the Program and Central Management staff. No changes on projected allocations /expenses should be made by Central Management without previous discussion with program/division.
- Immediately, HIV/AIDS Program Managers will be trained in state purchasing rules, and financial management. At the Division level, all program managers will be required to create electronic budgets (based on Notice of Award for federal grants and FY 07 state budget information to be received from central management) against which all financial transactions should be checked. Any deviation from that budget must receive Division and Central Management review and approval.

- RIFANS to be in-place by July 1, 2006, creates a hierarchal approval process.

(note: At the division level, a new financial management system is being developed and implemented to ensure continuous check and balance monitoring is in place.)

### **Financial Processing and Fiscal Closing**

#### **Finding:**

The Department of Health did not follow the fiscal year-end closing procedures as outlined by the Office of Accounts and Controls for the fiscal year 2005 closing. A journal entry was processed in fiscal year 2006 to transfer expenditures that were incurred in fiscal year 2005. The journal entry should have been properly classified as a 2005 expenditure and submitted in a timely manner. The transfer of these expenditures has created a situation where the current year activity for the natural account for contract services is misstated. This transfer has skewed the current year reporting by understating the balance by \$1.9 million.

The Department of Health has not used the existing project code field available in the current accounting system. Therefore management is not able to monitor individual grant year activity. Additionally, the department does not break out program expenditures at the time requisitions are initiated.

#### **Recommendations:**

4. Ensure that fiscal closing procedures are followed and that journal entries are appropriately prepared and reviewed.
5. Develop and implement an account code structure to identify and track activity by project code. Additionally, break out program expenditures at the time requisitions are initiated.

#### **Management's Response:**

DOH accepts the recommendations. Proposed corrective actions are:

- Immediately, develop a checklist of all year-end closing procedures.
- Create a "master staff allocation" sheet identifying account numbers to be charged and cross reference with grants.

- Ensure that all program expenditures that are not consistent with initial budget are addressed with Central Management in a timely fashion. Ensure that there is close tracking of Program variables that may effect expenditures (e.g., numbers of people receiving services, increase in the cost of medications, etc.)

(note: The newly implemented Rhode Island Financial Accounting Network System [RIFANS] has integrated features that will assist staff in the tracking process.)

### **Budget Estimates/ Federal Grants Information Schedule**

#### **Finding:**

Budget projections submitted on Form BR-7, as required by instructions from the Budget Office, did not accurately reflect program operations. This occurred because the department used inaccurate account balances caused in part by the movement of funds between the two accounts and the lack of a detailed explanation of the methodology used.

In addition, the Federal Grants Information Schedule was not prepared and submitted as required by the Office of Accounts and Control. Agencies are required to file schedules by August 15<sup>th</sup> as part of the fiscal year closing procedures. The lack of reconciled information provided by the schedule results in accurate and timely information relating to program operations not being readily available for review.

#### **Recommendation:**

6. Institute controls that will ensure required forms and schedules are prepared and submitted with accurate information and in a timely fashion.

#### **Management's Response:**

DOH accepts the recommendation. Proposed corrective actions are:

- Copy of the Notice of Grants Awards will be shared with program and Division Director.
- Program Manager will notify/remind fiscal staff and Division Director of approaching deadline one month before the due date.
- Produce a checklist to assist in the production of timely reports and schedules.

## **APPLICATION AND CERTIFICATION**

### Finding:

The Health Resources and Services Administration (HRSA) is the federal agency that awards grants to HIV programs. Under the terms and conditions of the grant award, HRSA allows each grantee to establish its own eligibility criteria for the AIDS Drug Assistance Program (ADAP) certification process. At a minimum, client eligibility must be verified that ADAP is the payer of last resort and only eligible clients should be served.

The Office of HIV/AIDS requires that all of the following must be met in order to qualify as an eligible participant for ADAP:

- Rhode Island Resident.
- Medical verification of a positive diagnosis of HIV.
- No other insurance available to pay for HIV/AIDS treatment.
- Income not in excess of 400% of the federal poverty level.

During our review of the application and certification process, we noted the following:

- The applicant is not required to provide proof of residency.
- There is limited income verification performed by the program office during the certification process.
- There are application deficiencies. Specifically, the application does not concisely state the items and information needed for a complete application; there are no instructions available to the applicant to assist in the preparation of the application; and, the application lacks a confidentiality agreement detailing the terms and conditions whereby information provided by the applicant may be shared.

### Recommendations:

7. Improve the monitoring and verification of information submitted to ensure that only eligible applicants are approved to be in the program. This includes, but not limited to:
  - Proof of residency.
  - Copies of income tax returns.
  - Relevant applicant information maintained in a file.
8. Modify the current application to make it easier to use and to provide all necessary instructions as well as statements related to confidentiality.

Management's Response:

DOH accepts the recommendations. Proposed corrective actions are:

- Clearly establish client eligibility criteria and appropriate protocols. Designate and train staff responsible for that process.
- Develop and implement quality improvement "review" process.
- Review/modify current application form (by July, 2006).
- Distribute application form to all of our Case management vendors.
- Train vendors for statewide use of application form.
- Inform applicant that all information provided will be subject to verification.

**BILLING AND PAYMENT**

**Drug Claims**

Finding:

The HIV program is responsible to pay pharmacies for drugs provided to those participants enrolled in the program.

During our review we noted that there are weak internal controls over the processing of payment transactions. Specifically, there were no batch control totals to ensure accurate payment to pharmacies.

Recommendation:

9. Implement proper controls that provide reasonable assurance that billing and payments are processed correctly and in a timely manner, and which allow for post audit verification.

Management's Response:

DOH accepts the recommendation. Proposed corrective action is:

- R.I. Department of Health (DOH) is working with Department of Human Services (DHS) to transfer Pharmacy Benefits Management Program (PBMP) to EDS. This will allow for a more controlled and timely processing of pharmacy payments and rebates. Preparatory meetings have already taken place and DHS will send proposal to DOH by mid September for a starting date of October 1, 2006.

### **Drug Rebates**

#### **Finding:**

As noted in the Drug Claims section above, the HIV Program is responsible to pay pharmacies for drugs provided to those participants enrolled in the program. The program captures information from the pharmacy invoices and submits this information to drug manufacturers. On a quarterly basis, manufacturers calculate rebates payable to the program and remit these rebate checks to the program.

During our review we noted that Program Services does not reconcile rebates received with the amounts recorded and deposited. This lack of control led to one error going undiscovered. During our review we discovered a check in the amount of \$7,661.55 that had been misplaced and became stale dated. Neither management services nor the program staff detected the unrecorded deposit. Upon discovery, a new check was requested and deposited.

#### **Recommendation:**

10. Institute controls that reasonably ensure all drug rebates will be applied for, received, and deposited in a timely manner.

#### **Management's Response:**

DOH accepts the recommendation. Proposed corrective action is:

- R.I. Department of Health (DOH) is working with Department of Human Services (DHS) to transfer Pharmacy Benefits Management Program (PBMP) to EDS. This will allow for a more controlled and timely processing of pharmacy payments and rebates. Preparatory meetings have already taken place and DHS will send proposal to DOH by mid September for a starting date of October 1, 2006.

### **Contract Services**

#### **Finding:**

The Office of HIV/AIDS has entered into contracts with various vendors to provide and administer services under the Ryan White CARE Act. The contracts stipulate that the contractor shall submit requests for reimbursement of only those expenditures that are supported by valid invoices, on a monthly basis.

A review of payments made to contractors for the reimbursement of services provided indicated that some payments made to the contractors were for categories of items not supported by valid invoices.

Recommendation:

11. Implement controls to ensure that contract payments are made only when terms and conditions are met including adequate supporting documentation for reimbursement of expenses.

Management's Response:

DOH accepts the recommendation. Proposed corrective actions are:

- The newly implemented RIFANS accounting system contains automated controls designed to ensure that payments will be made only when the terms and conditions of the contract are met.
- At the division level, a new financial management system is being developed and implemented to ensure continuous check and balance monitoring is in place. All program managers will be trained in financial management systems, state purchasing rules.
- Any discrepancies/mistakes identified by Central management should immediately be sent to the program manager with a copy to the Division Director.

## **DATA PROTECTION AND RETENTION**

### **Data Protection**

Finding:

The Office of HIV/AIDS retains and electronically records confidential information relating to applicants and qualified participants in the ADAP Program. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) states that health information relating to individuals is private and should be protected, and government programs that pay for health are subject to the provisions of this federal law.

In our review of information technology security, we noted that sensitive information is not protected via the use of passwords or encryption to prevent unauthorized access to such information and that this information is not adequately backed-up to protect this information from loss. This information is shared via internal intranet e-mail by the program administrators and could result in the accidental transfer of information or misuse of information by someone other than its intended recipient. We also noted that

the Office of HIV/AIDS does not have adequate controls in place to protect computers from theft or misuse.

While our audit did not reveal any instances of unauthorized access or loss of information, strengthening preventative controls will reduce potential risks.

Recommendations:

12. Implement policies, procedures and controls to ensure that confidential information relating to the ADAP Program is adequately protected. Accordingly, the office must implement hardware and software controls to protect against theft of computers, unwarranted access to and transfer of data, and implement controls to ensure that information is properly backed-up to prevent loss of information.
13. Perform a self-assessment to ensure that the HIV Program is in compliance with HIPAA.

Management's Response:

DOH accepts the recommendations. Proposed corrective actions are:

- Review of all policies, procedures re: confidentiality (implement immediately).
- Perform self-assessment including physical environment (implement immediately).
- Based on results of self-assessment and procedures review and implement necessary training for staff handling confidential information and physical environment necessary changes.
- Work with IT department to implement theft protection measures (by September 1, 2006).
- DOH has implemented an encrypted e-mail procedure for all messages going from DOH to outside parties.

*Note: HIPAA training will be offered to all division staff.*

**Records Retention**

Finding:

Rhode Island General Law §38-1-10 entitled, "Custody and Protection-Disposal of Records" states that "no public official may mutilate, destroy, sell, loan, or otherwise dispose of any public record without the consent of the public records administration program of the secretary of state."



During our review we noted that the Office of HIV/AIDS destroyed records without first receiving authorized certificates of destruction from the Office of the Secretary of the State. Discussions with program staff revealed that they were unaware of the aforementioned statute and information was maintained or destroyed based on space constraints.

Recommendation:

14. Implement policies, procedures, and controls to comply with State record retention laws.

Management's Response:

DOH accepts the recommendation. Proposed corrective actions are:

- Train staff on State record retention law.
- Policies, procedures, and controls will be implemented by September 1, 2006.

**Note:** This training will be extended to all division staff.